

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-125-G

IN RE:

Piedmont Natural Gas)	
Company's Application of the)	SETTLEMENT AGREEMENT
Natural Gas Rate Stabilization Act)	
To its Rates and Charges.)	

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina ("ORS"), South Carolina Energy Users Committee ("SCEUC"), and Piedmont Natural Gas Company, Inc. ("PNG") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, by Public Service Commission of South Carolina ("Commission") Order Nos. 2005-491, dated September 28, 2005, and 2005-567, dated October 13, 2005, the Commission established a baseline for PNG under the Natural Gas Rate Stabilization Act (the "Act") and approved certain accounting adjustments proposed by ORS and PNG;

WHEREAS, pursuant to S.C. Code Ann. § 58-5-455 (Supp. 2007), PNG filed its Quarterly Monitoring Report and Proposed Rate Changes with the Commission on June 15, 2008 for the review period consisting of April 1, 2007 through March 31, 2008 ("Review Period");

WHEREAS, the Report of ORS' examination of PNG's Monitoring Report for the Twelve-Month Period Ending March 31, 2008, pursuant to the Act, was filed with the Commission on September 2, 2008;

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket.

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest;

WHEREAS, following those discussions the Parties have each determined that their interests, and ORS has determined that the public interest, would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. PNG will implement rates for the twelve-month period beginning with the first billing cycle of November 2008 calculated on the basis of an 11.2% ROE.

2. The Parties agree that the following are the only attachments to this Settlement Agreement: Schedule 1 (Net Operating Income and Rate of Return); Schedule 2 (Explanations of Accounting and Pro Forma Adjustments); and Schedule 3 (Average Weighted Cost of Capital).

3. The Parties agree that PNG will adopt the accounting adjustments of ORS as set forth in Schedule 2 as attached to this Settlement Agreement.

4. The Parties agree that, based upon the accounting adjustments proposed by ORS and adopted by PNG, and the agreement of PNG to implement rates based on an 11.2% ROE, South Carolina ratepayers will realize a reduction in current margin rates totaling (\$1,530,000).

5. The Parties agree to an adjustment for Demand Cost Under-Recovery of \$3,352,717.

6. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use

reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

7. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. Should the Commission decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

8. This Settlement Agreement shall be interpreted according to South Carolina law.

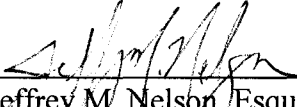
9. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

September 2, 2008

[SIGNATURE PAGES FOLLOW]

WE AGREE:

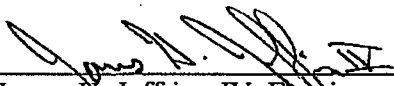
Representing and binding the Office of Regulatory Staff



Jeffrey M. Nelson, Esquire
Shannon B. Hudson, Esquire
Office of Regulatory Staff
1441 Main Street, Suite 300
Columbia, SC 29201
Phone: (803) 737-0823
Fax: (803) 737-0895
Email: jnelson@regstaff.sc.gov
shudson@regstaff.sc.gov

WE AGREE:

Representing and binding Piedmont Natural Gas Company, Inc.



James H. Jeffries, IV, Esquire
Moore & Van Allen, PLLC
100 North Tryon Street, Ste. 4700
Charlotte, NC 28202
Phone: 704-331-1079
Fax: 704-339-5879
Email: jimjeffries@mvalaw.com

WE AGREE

Representing and binding the South Carolina Energy Users Committee



Scott Elliott, Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, SC 29205
Phone: (803) 771-0555
Fax: (803) 771-8010
Email: selliot@elliottlaw.us

Settlement Schedule 1

Piedmont Natural Gas Company
 South Carolina Operations
 Net Operating Income and Rate of Return
 For the Twelve Months Ended March 31, 2008
 Docket No. 2005-125-G

	(1) Per Regulatory Books	(2) ORS Accounting Adjustments	(3) ORS As Adjusted	(4) Adjustments for Proposed Margin Decrease	(5) Adjustments for Demand Cost Under Recovery	(6) Total After Proposed Rates
Operating Revenues						
1 Sale and Transportation of Gas	\$ 206,032,090	\$ 16,285,399	\$ 222,317,489	\$ (1,530,000)	\$ 3,352,717	\$ 224,140,206
2 Other Operating Revenues	1,008,185	0	1,008,185			1,008,185
3 Total Operating Revenues	207,040,275	16,285,399	223,325,674	(1,530,000)	3,352,717	225,148,391
Operating Expenses						
4 Cost of Gas	132,492,666	13,460,456	145,953,122		3,330,837	149,283,959
5 Operations and Maintenance	30,022,641	(718,242)	29,304,399	(2,828)	6,196	29,307,767
6 Depreciation	11,534,194	426,431	11,960,625			11,960,625
7 General Taxes	5,424,004	626,574	6,050,578	(7,157)	15,684	6,059,105
8 State Income Taxes	977,048	201,634	1,178,682	(76,000)		1,102,682
9 Federal Income Taxes	6,761,503	1,053,612	7,815,115	(505,405)		7,309,710
10 Amortization of Investment Tax Credits	(58,764)		(58,764)			(58,764)
11 Total Operating Expenses	187,153,292	15,050,465	202,203,757	(591,390)	3,352,717	204,965,084
12 Net Operating Income	19,886,983	1,234,934	21,121,917	(938,610)	0	20,183,307
13 Interest on Customers' Deposits	(130,485)		(130,485)			(130,485)
14 Amortization of Debt Redemption Premium	(14,673)	334	(14,339)			(14,339)
15 Allowance for Funds Used During Construction	222,677		222,677			222,677
16 Customer Growth	106,685	7,796	114,481	(5,087)		109,394
17 Net Operating Income for Return	\$ 20,071,187	\$ 1,243,064	\$ 21,314,251	\$ (943,697)	\$ 0	\$ 20,370,554
Original Cost Rate Base:						
18 Plant in Service	\$ 372,530,464	\$ (1,110,892)	\$ 371,419,572			\$ 371,419,572
19 Accumulated Depreciation	(139,772,389)		(139,772,389)			(139,772,389)
20 Net Plant in Service	232,758,075	(1,110,892)	231,647,183			231,647,183
Add:						
21 Construction Work in Progress	4,773,647		4,773,647			4,773,647
22 Materials and Supplies	21,049,170		21,049,170			21,049,170
23 Cash Working Capital	1,521,008	(126,591)	1,394,417			1,394,417
Deduct:						
24 Customers' Advances	0		0			0
25 Customers' Deposits	4,169,068		4,169,068			4,169,068
26 Accumulated Deferred Income Taxes	36,049,549		36,049,549			36,049,549
27 Unclaimed Funds	366,316		366,316			366,316
28 Original Cost Rate Base:	\$ 219,516,967	\$ (1,237,483)	\$ 218,279,484			\$ 218,279,484
29 Rate of Return	9.14%		9.76%			9.33%
30 Return on Equity	10.86%		11.96%			11.20%

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2008
Docket No. 2005-125-G

Line No.	Description	Per Piedmont	Per ORS
1	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To increase revenues on a going-level basis.	\$ 16,285,399	\$ 16,285,399
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	<u>\$ 16,285,399</u>	<u>\$ 16,285,399</u>
2	<u>Cost of Gas</u>		
	To increase cost of gas on a going-level basis.	\$ 13,460,456	\$ 13,460,456
	<u>Total Cost of Gas</u>	<u>\$ 13,460,456</u>	<u>\$ 13,460,456</u>
3	<u>Operations and Maintenance Expenses</u>		
a.	To annualize the payroll expense as of March 31, 2008 and to disallow officer salary increases in conformance with PSC Order No. 2002-761, dated November 1, 2002.	\$ (373,143)	\$ (373,143)
b.	To increase expenses for the salary and payroll investment plan. The plan allows participants to defer a portion of their base salary and the Company matches a portion of the participant's contribution.	55,254	28,472
c.	Adjustment 3 c. not used by Company.		
d.	To adjust pension costs included in the filing.	(462,945)	(462,945)
e.	To adjust uncollectible gas cost expense utilizing the method recently approved in Docket No. 2006-4-G, Order No. 2006-527, dated October 11, 2006. This removes uncollectible gas cost expense from base rates and records the amount in account #253.04. The applicable uncollectible gas cost rate is .18482%.	(78,401)	(186,841)
f.	To decrease expenses for allocations to non-utility activities.	(26,086)	(26,124)
g.	To increase expenses for the Long-Term Incentive Plan.	318,194	319,692
h.	To adjust expenses for the Short-Term Incentive Plan.	6,691	(85,129)
i.	To decrease expenses for the MVP Incentive Plan.	(23,594)	(23,594)

Settlement Schedule 2

Piedmont Natural Gas Company
 South Carolina Operations
 Explanations of Accounting and Pro Forma Adjustments
 Twelve Months Ended March 31, 2008
 Docket No. 2005-125-G

Line No.	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
j.	To increase expenses for group insurance as projected.	101,900	101,900
k.	To increase expenses for the Piedmont Town Center lease.	3,505	3,505
l.	To decrease expenses for the South Carolina assessment fee.	(8,660)	(7,338)
m.	To decrease expenses for items that are nonallowable for ratemaking purposes.	(137,655)	(137,655)
n.	To increase expenses for amortization of early retirement incentive.	149,759	151,230
o.	To increase expenses for IT projects	55,917	55,917
p.	To decrease expenses for nonallowable consulting fees	0	(76,189)
	<u>Total Operations and Maintenance Expense</u>	\$ (419,264)	\$ (718,242)
4	<u>Depreciation Expense</u>		
	To increase depreciation expense on a going-level basis using recently completed depreciation study rates.	\$ 491,751	\$ 426,431
	<u>Total Depreciation Expense</u>	\$ 491,751	\$ 426,431
5	<u>General Taxes</u>		
a.	To increase property taxes on a going-level basis.	\$ 643,372	\$ 643,372
b.	To adjust payroll tax expense.	(92,824)	(92,979)
c.	To increase franchise taxes (rate of .3%) and gross receipts tax (rate of .16779%) for the adjustment made to increase revenues on a going-level basis.	0	76,181
	<u>Total General Taxes</u>	\$ 550,548	\$ 626,574
6	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income of accounting and pro forma adjustments.	\$ 190,975	\$ 201,634
	<u>Total State Income Taxes</u>	\$ 190,975	\$ 201,634

Piedmont Natural Gas Company
 South Carolina Operations
 Explanations of Accounting and Pro Forma Adjustments
 Twelve Months Ended March 31, 2008
 Docket No. 2005-125-G

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
7	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income of accounting and pro forma adjustments.	\$ 982,727	\$ 1,053,612
	<u>Total Federal Income Taxes</u>	<u>\$ 982,727</u>	<u>\$ 1,053,612</u>
8	<u>Amortization of Debt Redemption Premium</u>		
	To increase net operating income for amortization of debt redemption premium.	\$ 334	\$ 334
	<u>Total Amortization of Debt Redemption Premium</u>	<u>\$ 334</u>	<u>\$ 334</u>
9	<u>Customer Growth</u>		
	To increase net operating income to reflect anticipated customer growth (rate of .542%) following the adjustments to operating revenues and expenses.	\$ 5,551	\$ 7,796
	<u>Total Customer Growth</u>	<u>\$ 5,551</u>	<u>\$ 7,796</u>
10	<u>Plant in Service</u>		
	To adjust plant in service to reflect the appropriate South Carolina allocation percentages	\$ 0	\$ (1,110,892)
	<u>Total Plant in Service</u>	<u>\$ 0</u>	<u>\$ (1,110,892)</u>
11	<u>Cash Working Capital</u>		
	To decrease cash working capital following the pro forma adjustments to operation and maintenance expenses (rate of 12.5%) as reflected in the Original Filing.	\$ (52,408)	\$ (126,591)
	<u>Total Cash Working Capital</u>	<u>\$ (52,408)</u>	<u>\$ (126,591)</u>
12	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To adjust revenues from the sale and transportation of gas for the proposed margin decrease. ORS has recalculated this adjustment utilizing all ORS adjustments to operating revenues.	\$ 1,953,502	\$ (1,530,000)
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	<u>\$ 1,953,502</u>	<u>\$ (1,530,000)</u>

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2008
Docket No. 2005-125-G

Line No.	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
13	<u>Operations and Maintenance Expenses</u>		
a.	To adjust the provision for uncollectible accounts (.18482%) for the proposed margin decrease.	\$ 4,563	\$ (2,828)
b.	To increase the utility license fee (rate of .3%) following the adjustment to operating revenues.	5,847	0
	<u>Total Operations and Maintenance Expenses</u>	\$ 10,410	\$ (2,828)
14	<u>General Taxes</u>		
	To adjust franchise taxes (rate of .3%) and gross receipts tax (rate of .16779%) for the proposed margin decrease.	\$ 0	\$ (7,157)
	<u>Total General Taxes</u>	\$ 0	\$ (7,157)
15	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income from the proposed margin decrease.	\$ 97,155	\$ (76,000)
	<u>Total State Income Taxes</u>	\$ 97,155	\$ (76,000)
16	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income from the proposed margin decrease.	\$ 645,849	\$ (505,405)
	<u>Total Federal Income Taxes</u>	\$ 645,849	\$ (505,405)
17	<u>Customer Growth</u>		
	To adjust net operating income to reflect anticipated customer growth (rate of .54%) following the proposed margin decrease.	\$ 6,480	\$ (5,087)
	<u>Total Customer Growth</u>	\$ 6,480	\$ (5,087)
18	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To increase the revenue requirement for the sale and transportation of gas associated with demand cost under-recovery.	\$ 3,348,587	\$ 3,352,717
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	\$ 3,348,587	\$ 3,352,717

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2008
Docket No. 2005-125-G

Line No.	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
19	<u>Cost of Gas</u>		
	To increase cost of gas for the demand cost under-recovery using a demand cost allocation factor of 16.16%, based upon the most recent design day study.	\$ <u>\$3,330,837</u>	\$ <u>3,330,837</u>
	<u>Total Cost of Gas</u>	\$ <u>\$3,330,837</u>	\$ <u>3,330,837</u>
20	<u>Operations and Maintenance Expenses</u>		
a.	To increase the provision for uncollectible accounts (rate of .18482%) following the adjustment to revenues for demand cost under-recovery.	\$ 7,781	\$ 6,196
b.	To increase the franchise taxes (rate of .3%) following the adjustments to revenues for demand cost under-recovery.	<u>9,969</u>	<u>0</u>
	<u>Total Operations and Maintenance Expenses</u>	\$ <u>17,750</u>	\$ <u>6,196</u>
21	<u>General Taxes</u>		
	To increase the franchise taxes (rate of .3%) and gross receipts tax (rate of .16779%) for the adjustment made to revenues for demand cost under-recovery.	\$ <u>0</u>	\$ <u>15,684</u>
	<u>Total General Taxes</u>	\$ <u>0</u>	\$ <u>15,684</u>

Piedmont Natural Gas Company
South Carolina Operations
Average Weighted Cost of Capital
Docket No. 2005-125-G

Settlement Schedule 3

Description	Capital Structure	Regulatory Per Books				As Adjusted				After Proposed Increase				
		Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Net Operating Income
Long-Term Debt	766,971,002	43.50%	95,489,881	6.91%	3.01%	6,598,351	94,951,576	6.91%	3.01%	6,561,154	94,951,576	6.91%	3.01%	6,561,154
Common Equity	906,180,726	56.50%	124,027,086	10.86%	6.13%	13,472,836	123,327,908	11.96%	6.75%	14,753,097	123,327,908	11.20%	6.32%	13,809,400
Total	1,763,151,728	100.00%	219,516,967		9.14%	20,071,187	218,279,484		9.76%	21,314,251	218,279,484		9.33%	20,370,554


BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-125-G

IN RE:)	
)	
Piedmont Natural Gas Company, Inc.'s)	
Application Of the Natural Gas Rate)	CERTIFICATE OF
Stabilization Act to its Rates and Charges)	SERVICE
_____)	

This is to certify that I, Pamela J. McMullan, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **SETTLEMENT AGREEMENT** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

James H. Jeffries, IV
Piedmont Natural Gas Company
100 North Tryon Street, Ste 4700
Charlotte, NC 28202

Scott Elliott
Elliott & Elliott, P.A.
721 Olive Street
Columbia, SC 29205



Pamela J. McMullan

September 2, 2008
Columbia, South Carolina